

**A
U
D
I
T

R
E
P
O
R
T**

SCOTTSDALE CITY COUNCIL

Herbert Drinkwater, Mayor
Councilman Greg Bielli
Councilman James Burke
Councilwoman Mary Manross
Councilman Robert Pettycrew
Councilman Donald Prior
Councilman Richard Thomas

**CITY SECTION 8 HOUSING
ASSISTANCE PROGRAM OPERATIONS**

The City's Section 8 program helps eligible Scottsdale families pay their rent using federal funds from HUD. The City's program was labeled "financially troubled" by HUD in its third year of operation. Financial management reforms are underway.

**Report No. 9403
June 1995**



June 12, 1995

To the Most Honorable Herbert R. Drinkwater, Mayor
and the Members of the Scottsdale City Council:

Transmitted herewith is the City Section 8 Housing Assistance Program Operations Report No. 9403. This audit was a scheduled project approved by City Council as part of the City Auditor's 1994 Audit Plan. Janet Lowden and Gary Rice participated in this project.

During the audit's course, we identified that certain documents presented to us as authoritative were, in fact, not authentic. We extended audit fieldwork because this heightened the program's risk. Results of the extended inquiry will be furnished to you in a separate summary upon completion.

Work on the operational audit was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117, *et seq*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the standards' three year peer review cycle requirement.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Barcala".

Cheryl Barcala, CIA, CPA, CFE
Scottsdale City Auditor

Gail Crawford, CPS

TABLE OF CONTENTS

Action Plan	i
Chapter One	
Introduction	1
Results In Brief	2
Background	3
Certificates And Vouchers Offer Varied Options	3
Housing Authority Funds Consist Of Two Parts	4
HUD Regulates Local Program Operations.....	5
Chapter Two	
Section 8 Program Delivery Can Be Enhanced	9
Administrative Plan Needs To Be Finished	9
Falling Occupancy Affects Program Health	10
Understaffing, Process Lags, And Long Waiting Lists	
May Contribute To Vacancy Rate	14
Family Self-Sufficiency Should Be Readdressed	16
Documentation Needs To Be Completed	17
Budgetary Control System Needed.....	19
City Should Decide Whether To Contribute Funds.....	19
Budget Control Would Improve The Adequacy	
And Timeliness Of Draws	20
Budget Process Should Assess Long-Term Program Needs	21
Organization Should Be Reevaluated	21
Recommendations	22
Abbreviated Responses.....	22

Chapter Three

Action Needed To Strengthen Internal Controls	23
Financial Management Procedures Need To Be Developed.....	23
Procedures Should Be Developed To Verify Reports	24
Cost Allocation Plan Needed	24
Internal Reporting Needs To Be Improved.....	25
Payment And Receipt Controls Should Be Enhanced.....	26
Written Procedures And Reconciliations Are Needed	26
Changes Need To Be Better Controlled	27
Multiple Payments Should Be Minimized	28
System Needed For Payables And Receivables	28
Cash Handling Procedures Need Revision.....	29
Procedural Change Could Save Program Money	30
Records Do Not Facilitate Audit	30
Negotiation Continues About Amount County Owes The City, But Repayment Should Ensur	31
City Financial Records Should Reverse Operating Deficit Entry	31
Recommendations	32
Abbreviated Responses.....	33
Appendix A: Objectives, Scope and Method.....	35
Appendix B: Management Responses	39

CITY SECTION 8 HOUSING ASSISTANCE PROGRAM OPERATIONS ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X		Due 12/31/95		<p>The General Manager, Planning and Development, should:</p> <p>Develop a City Section 8 Administrative Plan for HUD's approval which sets program objectives, and which details required local policies. A companion manual should be developed for administrative procedures, including a certificate tracking system; a system to tabulate, verify, and document numbers of units under contract on the first of every month; a housing assistance payments register system; a housing voucher financial management system; waiting list procedures; and rent reasonableness procedures.</p> <p>Implement procedures to monitor goal and objective accomplishment and to assess conformance to HUD requirements.</p> <p>Develop and implement a budgetary control system for Section 8 to deliberate authorization of City funds expenditures, enhance management oversight, improve draw effectiveness, and assess trends in community housing needs.</p> <p>Develop and implement written procedures which require verifying Section 8 financial reports, HUD submittals, and other appropriate reports to source documents and require management to document report review. Source documents should be retained to provide an audit trail.</p> <p>Develop a Section 8 cost allocation plan.</p>
2	X		Due 12/31/95		
3	X		Due 8/31/95		
4	X			Due 10/31/95	
5	X			Due 12/31/95	

CITY SECTION 8 HOUSING ASSISTANCE PROGRAM OPERATIONS ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
6	X		Due 8/31/95		Develop and document effective internal control procedures for establishing, verifying, periodically reconciling, and controlling changes to housing assistance payment accounts.
7	X			Due 10/31/95	Develop and document an effective Section 8 accounts payable and receivable system for portable certificates and vouchers, and tenant transactions.
8	X		Completed		Develop and document efficient and effective internal control procedures for Section 8 cash handling, as required by City business practice.
9	X			Due 6/30/96	Determine if electronic funds transfer technology could be an appropriate program efficiency enhancement.
10	X			Due 12/31/95	Negotiate with the County Housing Division and the Phoenix area HUD office and recover funds withheld during fiscal year 1992/93.
11	X			Due 12/31/95	Reverse the \$136,000 operating deficit off of Section 8 financial records, if HUD agrees.

CHAPTER ONE

City Section 8 Housing Assistance Program Operations
City Auditor Report No. 9403

Introduction

In August 1992, the City began administration of its contracts with the U.S. Department of Housing and Urban Development (HUD) for the Lower Income Housing Assistance Program, commonly called the "Section 8" program. Three types of housing assistance programs are offered under Section 8: new construction, substantial rehabilitation and existing housing. The City receives Section 8 program funding under the existing housing category, and that is the program discussed in this report.

Initially, the existing housing program was developed by HUD as a means of increasing the delivery of assistance by using existing housing stock. HUD also found that the program encouraged maintenance and improvement of housing and neighborhoods, and helped to avoid displacing families. In 1993, HUD redirected the program to emphasize participant achievement of self-sufficiency whenever possible.

The City Section 8 program is administered in the Community Assistance unit, part of the Planning and Development Department. For fiscal year 1994/95, Annual Contribution Contracts totaling \$2.2 million were available for housing assistance and program administration. Contract amounts are shown below, by project number.

Fiscal Year 1994/95 Active Annual Contribution Contracts

Certificates

AZ20E032004	\$94,020
AZ20E032005	\$58,068
AZ20E032006	\$144,720
AZ20E032007	\$411,600
AZ20E032008	\$531,280
AZ20E032009	\$485,340
AZ20E032010	\$55,105

Vouchers

AZ20V032004	\$197,375
AZ20V032005	\$95,239
AZ20V032006	\$113,231

Total	\$2,185,978
-------	-------------

Source: Annual Contribution Contracts, December 1994, and audit analysis.

The Section 8 program benefits not only individuals needing help, but also local rental unit owners, who receive the rents, and the City, which receives the sales taxes associated with the residential rentals. City Section 8 funding can pay for about 400 rental units. The level of assistance has remained stable. In the fall of 1994, about 345 City units were under contract, and 35 rental contracts were being administered for other housing authorities. About 500 households were on the waiting list.

Our objectives for this audit were two-fold: 1) to evaluate how well the program operated since the City took it back in August 1992, and 2) to assess whether or not Maricopa County owed the City Section 8 program money, and, if so, how much. The program was evaluated for the adequacy of the program's internal control structure and compliance with statutes, regulations and requirements. We briefed program management on our preliminary findings in August 1994.

Results In Brief

When the City took back Section 8, it inherited a program operated by a housing agency labeled "troubled" by HUD. The program historically had been operated with a deficit. HUD funding advances to Maricopa County had exceeded housing assistance payments expenditures. The result of the financial tangle was the recording of money due to the City projects from the County, a situation reported to City Council.

Since August 1992, City staff have gotten Section 8 operating fairly smoothly. Staff structured an accounting process which was compatible with City systems. Participants' files were reconstructed and the waiting list was opened. Rent checks mostly are going out on time. Staff got adjustments from HUD in the local rental rate to help Scottsdale tenants in the expensive local market. Office space and equipment was upgraded to increase productivity and security for staff and records.

Nonetheless, lack of management attention to basic business operations resulted in HUD's labeling the City Section 8 program "financially troubled." Section 8 for fiscal year 1993/94 incurred a \$71,000 deficit because administrative expenses were not being met by earned revenue. Funds were "loaned" to Section 8 to cover

the shortfall without specifically being authorized by City Council; Section 8 is not part of the City budget process. Management now needs to focus on strengthening day-to-day operations and assessing long-term program prospects. The most immediate needs for the program are: 1) to develop an administrative plan to set out objectives and program performance measures, 2) to implement budgetary control, and 3) to strengthen financial and internal controls. Negotiation to recoup \$117,000 from Maricopa County should be continued.

Background

The Section 8 program was started in 1974 after HUD evaluated the feasibility of providing housing allowances, rather than housing, to low and moderate income families. The Section 8 program is intended to afford low income families safe, sanitary, and decent housing. HUD found that a housing allowance program such as Section 8 tenant-based assistance could preserve existing housing stock by encouraging owner repairs and maintenance. Allowing families mobility resulted in the selection of better neighborhoods. Last, HUD found that people rented units that they could afford, and paid their share of the rent.

HUD selects contract administrator housing agencies, provides federal funds for operations, sets out program guidelines, and monitors performance. Contractual management services are performed by local housing agencies such as the City's. In tenant-based programs, housing agencies qualify assistance recipients and distribute payments to rental unit owners via Housing Assistance Payments (HAPs). The payment is the difference between the contract and tenant rents. Fair Market Rent (FMR) is a HUD-established amount for housing which includes utilities, maintenance, management, and other services which would be required to obtain rental housing. At this time, the City does not administer project-based housing assistance, another Section 8 program in which participants must live in specific rental dwellings.

Certificates And Vouchers Offer Varied Options

City Section 8 assistance is tenant-based. People are given certificates or vouchers for rent and search for their own rental unit in the marketplace. Program administration requirements differ for certificates and vouchers. Certificates are allotted for a particular

mix of rental unit sizes at a particular fair rent, and must be filled within those guidelines. Vouchers are not funded for particular unit sizes, but for a total fund amount. They present housing agencies with greater management flexibility, but also require more careful financial administration than HUD's certificate program.

With the certificate program, HUD assumes the risk of rising costs, and housing agencies can request contract amendments to get additional funds when conditions warrant. By contrast, under the voucher projects, the housing agency has to develop and maintain a spending plan for the program which does not exhaust funding prematurely. HUD will not amend voucher contracts to provide more money. Certificate participants are limited to paying no more than 30 percent of their adjusted monthly income towards rent, while the voucher program participants may prefer to pay more or less than 30 percent.

Housing Agency Funds Consist Of Two Parts

Section 8 projects, either certificates or vouchers, are funded for a predetermined amount, termed the budget authority, over a multi-year term, based on unit size and the FMR. This is the total amount for both agency earned revenue (called administrative fees) and HAPs which has been reserved in the federal budget for each particular project. The budget authority is set out in the letter of award to the housing agency. Each year, the housing agency receives, by means of an Annual Contributions Contract (ACC), HUD funds consisting of two parts: funds needed to make HAPs to rental unit owners, and administrative fees for performing contract administrator duties. As they expire, HUD automatically renews project contracts for another multi-year term.

The housing agency requisitions funds every quarter in advance of its needs, based upon a pre-approved annual budget estimate. At year-end, the agency reports to HUD about actual operations, and refunds any excess money. Agencies have to forecast to determine that their ACC budget authorities allow enough funds to continue providing assistance to tenants. Otherwise, certificate contract amendments or new allocations have to be sought.

Internal accounts track money, by project, which the housing agency earns for contract administration. This money is used to pay staff salaries and benefits, travel and training, and office space and equipment, among other items. Fees are based on preset percentages from HUD, and the housing agency has to accurately estimate how much it will earn against how much it will cost to operate, just as any business does. In any year in which the housing agency earns more in administrative fees than it spends, it accumulates operating reserves. Administrative revenue and expense accounts are reconciled and closed out annually.

At the year end reconciliation, over/under payments that developed in the HAP draw accounts during the year are corrected and reimbursed to either HUD or to the housing agency. Fund debit/credit amounts cannot be commingled among contracts to compensate for surpluses or deficits.

**HUD Regulates Local
Program Operations**

HUD is specific about how it requires the Section 8 program to be administered. Housing agency operations are governed by authoritative dictates set out in federal statute, HUD regulations, handbooks, and other guidance, and the ACCs. HUD also requires agencies to adhere to their locally-developed administrative plan, equal opportunity housing plan, and funding applications. Compliance is subject to audit by HUD inspector general staff, the US General Accounting Office and by external auditors.

Because compliance is subject to audit, the City's contract requires it to "maintain complete and accurate books of account and records...in accordance with HUD requirements..." HUD specifies how financial accounts have to be structured, and requires that housing agencies have adequate internal and financial control processes to make sure that program problems are identified and timely corrected.

Not only do they have to keep accurate records, but housing agencies also have to budget and forecast accurately so that they earn enough money in contract administration fees to cover expenses. Fee revenues are earned on the basis of lease contracts in effect on the first of every month. The housing agency has to keep allocations filled and track how long vacancies persist.

Key Agency Activities Key operational components that the housing agency must perform include outreach to potential tenants and to landlords who could participate in the program. Agencies have to be sure that rents are not overpaid, and that each payment is authorized by a contract. Rents have to be analyzed and certified as reasonable. The housing agency must inspect rental units to make sure they meet HUD housing quality standards. The agency must be able to make sure tenants are eligible to receive assistance, and must be able to determine the correct assistance payment to them. Rents must be paid on time.

These functions are performed in the local program by staff located in the Planning and Development Department. Full-time Section 8 staff consists of two occupancy specialists, an temporary occupancy aide, and a secretary. Staff who contribute to other housing programs and to Section 8 include an analyst, a housing quality inspector, and the Community Assistance Manager. The former full-time Section 8 office coordinator resigned in August 1994. The position's functions have been divided among remaining staff. The Community Assistance Manager resigned in March 1995. The position has not been permanently filled as of the date of this report.

Participant Requirements To become eligible for the City Section 8 program, participants have to meet criteria set out in the Code of Federal Regulations (CFR). Basically, participants must meet income restrictions by earning less than 50 percent of the median income for the area, and must fall into one of three family types: elderly, small or large. To be classified as an elderly family, either the head of the house or the spouse must be 62 years old or older. Also, a handicapped or disabled head of house, spouse, or single person would also qualify as an "elderly" family. Members of the household must live under one roof.

Once staff determine that applicants are eligible, a selection preference is assigned. The CFR sets basic preference criteria. (See Insert Next Page.) The local program administrative plan can also set out other criteria for local preference.

Federal Selection Preferences

The housing agency must give preference to families that are otherwise eligible for assistance and that are:

- involuntarily displaced,
- living in substandard housing, or
- paying more than 50 percent of family income for rent.

Source: 24 CFR 882.219.

After the City Section 8 staff initially verify qualifications, the prospective participant must provide a social security card, proof of income, a picture identification, and a consent form for income information. City staff verify income of the applicants by checking with third parties. Participants have to agree to annual recertification. Participants are also put on notice that if they commit any fraudulent acts in connection to the Section 8 program, receive dual assistance, or partake in criminal activities, they can be terminated from the program.

CHAPTER TWO

City Section 8 Housing Assistance Program Operations
City Auditor Report No. 9403

Section 8 Program Delivery Can Be Enhanced

The key component to the success of the City's Section 8 program is the maintenance of a high occupancy rate. HUD guidelines suggest that agencies should strive to maintain no less than 95 percent occupancy. Occupancy determines how many households are helped and drives housing agency revenues. Revenues in turn drive program growth in capability to serve community housing needs. In the City program, rates have fallen, revenues have dropped, and program reserves, which represent unused assistance funds, have increased.

These issues can be addressed by including program goals and objectives in an adopted, HUD-approved administrative plan, and by monitoring goal achievement. Section 8 should formulate budgets as all other City organizations do. This chapter discusses steps that should be taken to improve program delivery. Chapter Three discusses needed improvements in financial and internal control.

Administrative Plan Needs To Be Finished

The City does not yet have its own HUD-approved administrative plan. Because it took over an existing program, initial contract allocations were authorized under the umbrella of Maricopa County's administrative plan. HUD provisionally approved the City's administrative plan in November 1994. (See Insert.) Final written approval of the plan is contingent upon the City's providing several missing plan components to HUD.

Requirements For an Administrative Plan

The plan must include:

- a statement of the overall program approach and objectives,
- local policies concerning discretionary functions, such as waiting list openings and closings, mobility, preferences, or recertifications,
- a statement of acceptable housing quality standards,
- number of employees proposed, with positions and functions described, and
- HUD approval.

Source: 24 CFR 882.204 and 887.61.

The City's administrative plan should be developed to address program delivery and management oversight concerns discussed in the following sections.

**Falling Occupancy
Affects Program Health**

After HUD awards Section 8 certificates and vouchers to a housing agency, the agency has one year to get all slots under lease. After that, HUD requires housing agencies to aim for 95 percent occupancy or utilization. (See Insert.)

Occupancy Rate of Units

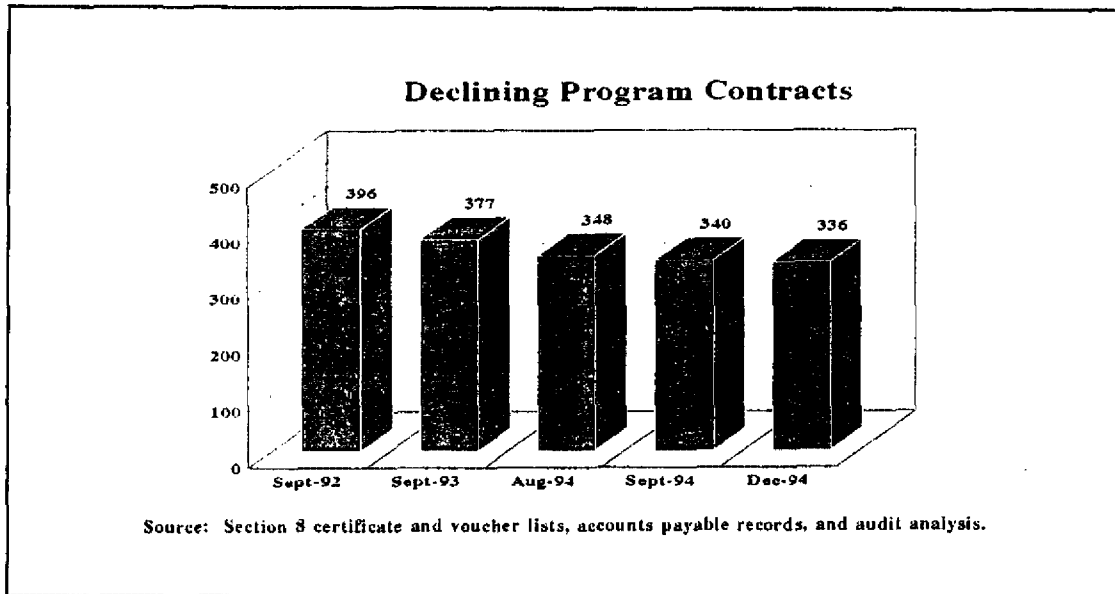
Once the initial leasing schedule is met, PHAs should insure that at least 95 percent of the units in the project are under lease/HAP contract so that assisted housing resources are effectively used and enough administrative fees will be earned to cover PHA expenses.

Source: HUD Handbook 7420.7 12-9 b.

Because the City took over administration of existing contracts, it was required to aim for 95 percent utilization, but has not always achieved this. Planning and Development management was unaware of falling utilization because Section 8 does not have a process in place to develop, verify, and report utilization. Declining utilization has resulted in falling income and rising program reserves, as discussed below. Although certificates and vouchers are available, waiting time for assistance, staff estimates, is two years.

Rental Contracts Have Declined

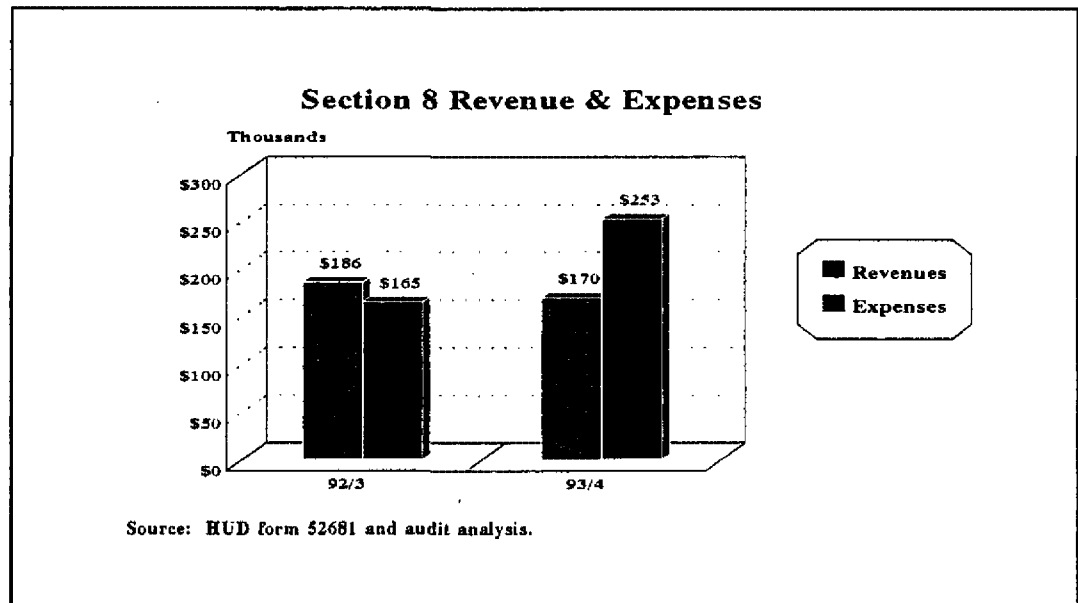
Using historical certificate and voucher lists, and comparing them to accounts payable records, we calculated that since the City took over the program in 1992, HAP contracts covering both certificates and vouchers have declined 15 percent, from 396 to 336 contracts by December 1994. (See Insert Next Page.) Total lease contracts administered by the City, including portable certificates and vouchers, declined from 429 in 1992 to 374 by December 1994.



One factor contributing to underuse is the tight Scottsdale housing market. Demand for rental housing exceeds the supply, and rents are high. Analysts estimate the Scottsdale vacancy rate at a low 4 percent. Tight housing markets are more challenging for Section 8 applicants, who have limited housing budgets. City staff have addressed high rents by applying for and receiving exception rents from HUD. Staff can also apply for greater-than-average annual rent adjustments and approve rents up to 10 percent higher than the HUD ceiling for up to 20 percent of participants. Vouchers can replace certificates, as they are more flexible.

City staff need to establish a landlord outreach program which actively seeks rental unit owners to participate in Section 8. In addition to outreach and applying for higher local subsidies, HUD suggests several other alternatives to counter underuse. Certificates or vouchers can be issued 30 to 60 days before projected turnover in slots. The housing agency could reassign or hire more staff to process applications. The housing agency can overissue certificates or vouchers to compensate for contracts that may not be signed between landlord and tenant. Finally, HUD provides a means to address housing availability through other Section 8 programs such as project-based assistance or new construction.

Earnings Lowered Declining numbers of contracts affect fee revenue. The City's program receives an ongoing administrative fee for each HAP contract on the first day of each month. Fewer contracts means lower earnings. In fiscal year 1993/94, earnings dropped \$16,000, but expenses rose \$88,000. (See Insert.)



In addition, the program should have a process for ensuring that the first of the month contract count is accurate. We compared a year-end HUD report to documents requesting payments to landlords (internal requisitions). The two sources did not agree. Fewer units were reported to HUD than were under contract, which also would lower earnings. (See Insert.)

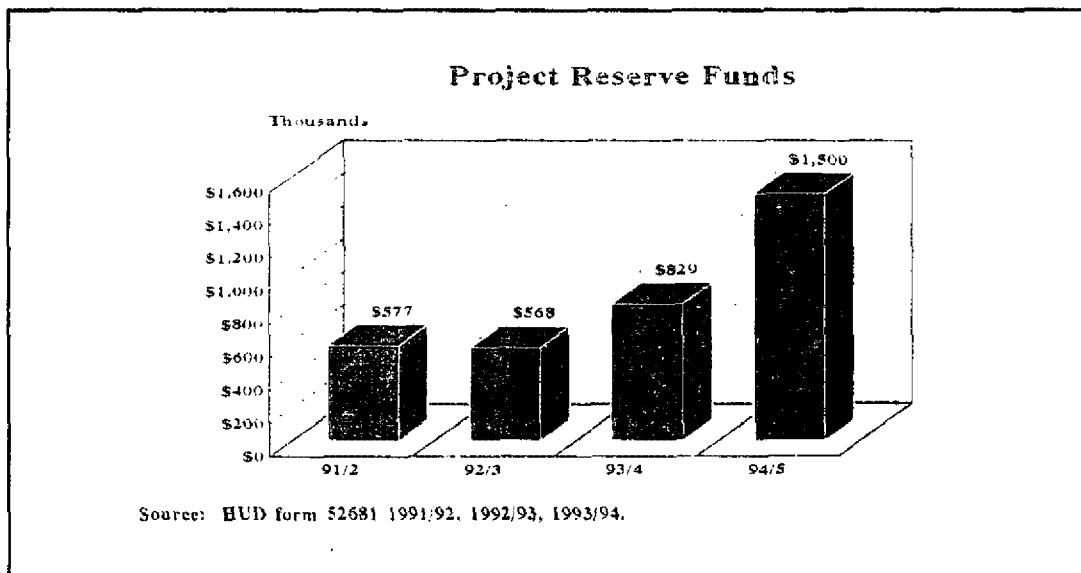
Month-by-Month Comparison Of Reported Units Under Lease Contract

Month	Reported to HUD	Internal Requisition
September 1992	366	396
October 1992	375	379
December 1992	379	392
January 1993	386	390
February 1993	384	390
March 1993	369	389

Source: HUD form 52681, Section 8 certificate/voucher lists, and audit analysis.

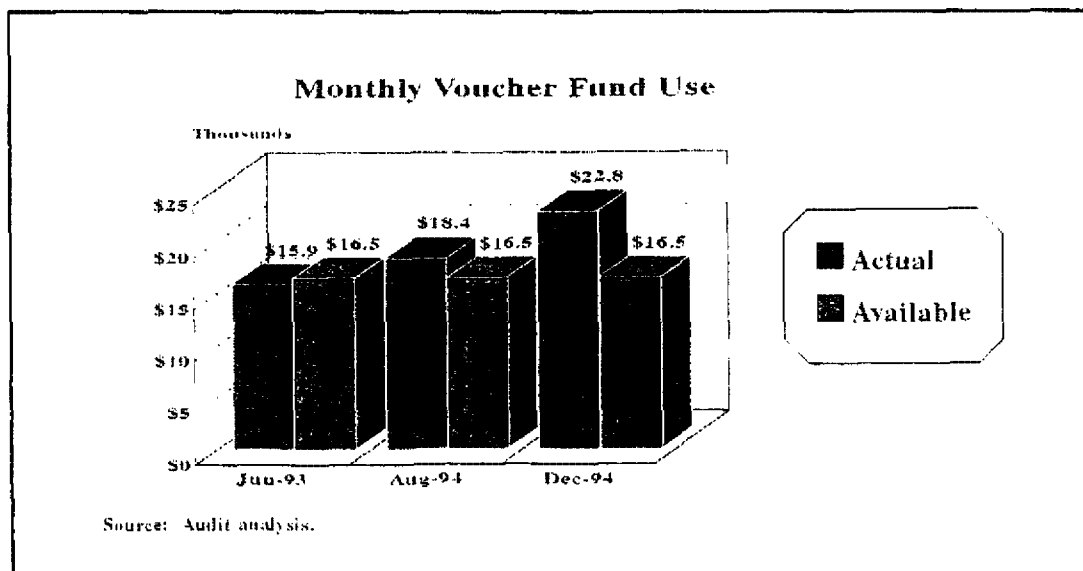
Project Reserves Are Growing

Declining occupancy also contributed to rising project reserves. Reserves, maintained by HUD, consist of annual contributions that have been allocated, but not expended, and which are available for subsequent years. Reserves can be drawn on in case occupancy is high and the rental market changes. At the beginning of fiscal year 1994/95, reserves were \$1.5 million. (See Insert.)



***Voucher Funds Are Fully Used,
But Need To Be Controlled***

Section 8 does not measure voucher funds utilization. To determine utilization, we compared accounts payable records of voucher contracts paid to annual voucher contract allocations. Program staff has done a good job of utilizing voucher funds. In the three months we analyzed, funds were all allotted. (See Insert.)



Nonetheless, a process to monitor utilization should be set out in the program administrative plan to ensure continued accomplishment.

Housing agencies must have sufficient controls to track available money in vouchers, in order to maintain a high performing program. To appropriately manage vouchers, HUD guidelines suggest that the housing agency use a financial management system. Information required for the system includes tracking the percent of vouchers in use at any point in time, estimating demand, and monitoring rents by bedroom size. The housing agency also must estimate likely increases in subsidy rates and in FMR-based payment standards for vouchers. The goal of voucher financial management is to make sure money is available for voucher contracts in the future, while fully using the funds in the present.

**Understaffing, Process Lags
And Long Waiting Lists
May Contribute To
Vacancy Rate**

In addition to a tight Scottsdale housing market, discussed on page 11, three internal program factors may have contributed to the underuse. Section 8 management should assess these factors. First, understaffing at initiation could have contributed, because staff may not have been able to do outreach to rental unit owners or to process placements for applicants. When the City took over the program in 1992, the City Council authorized five staff positions. Believing that the program had a deficit, managers decided to fill only three positions to build up the program's operating reserve. In reality, money for operations was provided in advance through requisitions to HUD. City records show that \$297,500 was deposited during the first quarter of fiscal year 1992/93.

The staffing decision resulted in two occupancy specialists handling 400 participants. HUD guidelines require reviewers to assess housing agencies to ensure that their operating reserves have not been accumulated at the expense of effective program administration. Understaffing is singled out as a poor management practice. The City Section 8 administrative plan should address number of employees working in the program, and their functions.

Cycle Time Not Tracked The second factor which may contribute to the underuse is the lack of control over turnaround times on available certificates and vouchers. Although HUD requires it, Section 8 staff do not track cycle times for filling slots. Initiation of a HAP register process would provide a monitoring procedure. (See Insert.) While HUD suggests that vacancies should be filled in 20 days or less, Section 8 staff estimated that it takes them 45 days to fill slots. The program administrative plan should set a goal for unit turnaround.

Housing Assistance Payments Register

This register must include the following:

- Name and address of family
- Name and address of owner
- Dwelling unit size
- Beginning date of lease term
- Monthly contract rent payable to owner
- Monthly tenant rent
- Monthly housing assistance payment to owner
- Date the family vacated and the number of days the unit is vacant, if any

Source: HUD Handbook 7420.7, Chapter 8.

Waiting List Too Long A third factor in the underuse may be the continued "open" status of the waiting list. In the Fall of 1994, 500 applicants were on the list. By January 1995, the list had grown to 900. HUD guidelines suggest that the list be kept to a number of applicants which can reasonably be served within one year of application. Maintaining an open waiting list costs staff time to take and pre-screen applications. (See Insert.) Applicants, who may have heightened expectations of assistance, have to be kept in contact with.

Waiting List Procedures

- (b) *Placing a family on the waiting list.* The PHA may place a family on its waiting list if the PHA makes a preliminary determination that the family is eligible for assistance.
- (c) *Suspending additions to the waiting list.* If there is insufficient funding authority to admit all eligible applicants to participation in the PHA's Housing Voucher and Certificate Programs, the PHA at any time may suspend the accepting or processing of new applications or adding new applicants to the waiting list...

Source: 24 CFR 887.153.

**Family Self-Sufficiency
Should Be Readdressed**

Initiated in the Section 8 program in 1993, the Family Self-Sufficiency (FSS) program aims to provide support services to help participating families to become economically independent and self-sufficient. Section 8 staff must identify resources for participants, track participant progress, and set up escrow accounts to collect money set aside for participants upon "graduation." Money set aside represents the difference between HAP amounts before and after personal income rises, so that people are not penalized for improving their lives.

Any funding the City receives after July 1, 1993, falls under the FSS requirements. In June 1994, HUD notified the City Section 8 that the City's request for a waiver of FSS requirements was denied. (See Insert.)

FSS Coverage

Beginning in FY 1993, each PHA that receives funding for additional rental certificates or rental vouchers must operate a Section 8 FSS program, unless the PHA receives an exception from the program...

Source: 24 CFR 984.101 (b), Scope.

FSS requirements cover an estimated 75 units in the City program. In October 1993, Section 8 received an additional 32-unit voucher allocation tied directly to the FSS program. HUD requires full enrollment in FSS within two years of receiving additional subsidies, or by October 1995. The City FSS was scheduled to be implemented in October 1994. Contract allocations for certificate project no. 10 (18 units) and voucher project no. 6 (25 units) also are covered by FSS requirements, because they were funded after July 1993.

FSS policy and procedures should be set out in the City Section 8 Administrative Plan. In addition, planning and coordination are necessary for successful program implementation, and work needs to be done if FSS is to be implemented on time. As an alternative, management could choose to contract out FSS functions. Key program provisions for the FSS program and their status of implementation at the close of audit fieldwork are shown on the next page.

FSS Requirements and Status of Implementation

	Implemented?
Program coordination committee established to secure services	no
Action plan developed and approved by HUD	yes
New allocations funded	yes
Commitments received from support service providers	no
Potential participants informed about FSS	no
Participant selection process developed and underway	no
Process developed and in place to monitor family compliance to agreements	no
Escrow accounting process developed and implemented	no

Source: Audit analysis.

Support services to be provided participants include continuing education, job training and placement, child care, and counseling. A coordinating committee needs to be established to secure the needed support services from identified public and private resource providers. Section 8 housing specialists will take on new roles as monitors of how well FSS families are living up to the agreements they sign upon entry into the program. Staff also participate with FSS families to set goals. It is not apparent how staff will be prepared for the new duties or how FSS will affect their current workload.

**Documentation Needs
To Be Completed**

Section 8 tenant files need documentation to be complete. HUD requires applicants who receive housing assistance to submit documentation verifying their Social Security number or to submit certification in an acceptable form that a Social Security number has not been assigned. The failure of any applicant to make the required disclosure and achieve positive verification constitutes grounds for denial of housing assistance or possible termination. These issues should be covered by the City Administrative Plan.

HUD-required tenant identification documentation, Social Security cards and birth certificates, is not contained in all tenant files. We examined all 400 Section 8 tenant files and found 7 percent were missing Social Security cards or birth certificates and 3 percent had questionable Social Security cards. We also found that two percent of the tenant files had missing or questionable housing quality standards inspection forms. Several files contained unsigned leases and illegible documents.

External auditors cited similar deficiencies with Social Security card documentation the past two fiscal reporting years. Management's reponse to the external audit findings was that a checklist is used to obtain complete documentation. The checklist apparently has not solved the problem, however. Documentation remains incomplete.

***Rent Reasonableness Forms
and Procedures Needed***

HUD requires housing agencies to have documented rent reasonableness procedures. Agencies certify for each unit for which they approve a lease that the contract rent for the unit is reasonable compared with rents currently being charged for comparable units in the private unassisted market, and is not more than rents currently being charged by owners for comparable unassisted units. Certification is documented on a HUD form which must be in each tenant's file.

In satisfying the rent reasonableness requirement, the housing agency must have an overall knowledge of the rental market within its jurisdiction and data on the rents being charged for specific units. Section 8 staff have conducted a market survey, but written procedures have not been completed and certification forms are not in each tenant's file.

We conducted a judgment sample of 78 payments to landlords in five different apartment complexes. We compared rents being paid by Section 8 participants to rents charged to the general public, and found no problems. Nonetheless, the City is not complying with requirements.

Budgetary Control System Needed

HUD requires that the housing agency must ensure that it can continue to administer its contracts for their duration. (See Insert.)

Operating Reserve

The PHA must ensure that projected administrative fees and the Operating Reserve will cover all projected costs of efficient and effective program administration through remaining ACC terms.

Source: HUD Handbook 7420.7 8-2 d, Operating Reserves.

To achieve this, HUD guidelines recommend that the housing agency develop and implement an on-going budgetary control system which tracks actual program costs against the agency's estimates on a monthly basis. Such a process should be set out in the City Administrative Plan. Revenue, expenditure, and encumbrance information is available to Section 8 from Financial Services, but program staff have not developed a budgetary control process. Section 8 operations do not undergo scrutiny during the City's budget process. As a result, City funds have been used to cover Section 8 expenses, but the use was not specifically authorized by City Council.

Lack of effective budgetary control led to the current poor financial status of the program. Without a proper tracking system, costs are difficult to control. The program operator is unable to initiate action in the case of budget overruns. Shortfalls result in City "loans" to the program. Section 8 management cannot formulate strategic plans for staff and facilities, or for program growth or shrinkage.

City Should Decide Whether To Contribute Funds

Preparation, approval and monitoring of an annual Section 8 budget would permit more effective management authorization of City fund use. City loans to Section 8 from the general fund involve "off-budget" bookkeeping entries. City Council does not review and approve these expenditures under existing procedures. Planning and Development management were unaware of the situation.

We compared federal funds during fiscal year 1993/94 to the housing payments and administrative fees reported to HUD at year end. Program expenses were more than the City received in federal funds. HAP underpayments would be paid in the next fiscal year after HUD approves the year end report. In the meantime, City funds are used for a six-month "loan." The City provided a long-term off-budget administrative subsidy of \$71,305. (See Insert.) If Section 8 continues its administrative deficit, City management should deliberate continuing a subsidy.

Fiscal Year 1993/94 City Subsidy

Federal funds received during year	\$1,879,056
Total Section 8 expenses	<u>-1,940,113</u>
6-month City loan	\$61,057
Administrative revenue earned	191,768
Administrative expenses	-252,824
Unreported rent expenses	<u>-10,248</u>
City subsidy for administration	\$71,304

Source: HUD Form 52681, trial balances, and audit analysis.

**Budget Control Would
Improve The Adequacy
and Timeliness of Draws**

Budgetary control would not only allow for appropriate oversight, it also would improve the manner in which Section 8 requisitions funds from HUD. Draws are not being effectively estimated by the Section 8 staff, with the result that the City loans money to Section 8 to meet expenses. Loans can last for months because Section 8 staff are late in filing end-of-year reports to HUD. HUD will remit underpayments for a program year only upon report receipt. Due to be filed by mid-August 1994, the fiscal year 1993/94 report was filed five months late. No draws were made for the second and third quarters of fiscal year 1994/95. Because of this, Section 8 exhausted its funds by February 1995.

**Budget Process Should Assess
Long-Term Program Needs**

In order to have long-term success in meeting community needs and remaining economically viable, Section 8 has to operate like a business, anticipating demand for rental assistance and assessing rental market conditions. These processes should also be set out in the City Administrative Plan. Staff should be alert for needed periodic rent increase requests to HUD, so that the local FMR continues to be realistic for the City market. A process should be in place to monitor utility amounts on a regular periodic basis, as a basis for annual adjustments.

A process of formal analysis of community needs now and in the future should be in place. Right now, community needs are informally assessed by counting the number of corporations picking up Section 8 literature and by the number of applicants on the waiting list. Projections for meeting needs with existing contracts should be made, and applications submitted for additional units if analysis determines the need for them. Financial projections for the contracts should be performed, to determine whether or not funding will be sufficient to meet needs during the contract's life. Otherwise, a contract amendment should be sought with HUD.

**Organization Should
Be Reevaluated**

Finally, management should evaluate whether or not a more effective Section 8 administrative structure is possible. Three issues should be considered. First, Family Self-Sufficiency places new demands on the Section 8 staff, which City Human Services staff already are experienced in meeting, for facilitating people who are trying to become economically independent. A partnership between the two programs could be mutually beneficial. Second, the Section 8 program, while nominally a social service program, effectively is a banking operation for federal funds transfer. Thus, stringent financial controls are required for program operations, which may not fit well within Planning and Development Department functions. Third, although in other regions Section 8 operations have been privatized to autonomous not-for-profit organizations, Arizona statutes weigh against the option. Statutes provide that the City will remain liable for operations even if Section 8 is privatized.

RECOMMENDATIONS The General Manager, Planning and Development, should:

1. Develop a City Section 8 Administrative Plan for HUD's approval which sets program objectives, and which details required local policies. A companion manual should be developed for administrative procedures, including a certificate tracking system; a system to tabulate, verify, and document numbers of units under contract on the first of every month; a housing assistance payments register system; a housing voucher financial management system; waiting list procedures; and rent reasonableness procedures.
2. Implement procedures to monitor goal and objective accomplishment and to assess conformance to HUD requirements.
3. Develop and implement a budgetary control system for Section 8 to deliberate authorization of City funds expenditures, enhance management oversight, improve draw effectiveness, and assess trends in community housing needs.

**ABBREVIATED
RESPONSES**

The General Manager, Planning and Development, responded as follows:

1. We concur with all of the recommendations...work is underway, and recommended target implementation date is December 31, 1995.
2. We concur...work is underway, and recommended target implementation date is December 31, 1995.
3. We concur...work is underway, and recommended target implementation date is August 31, 1995.

CHAPTER THREE

City Section 8 Housing Assistance Program Operations
City Auditor Report No. 9403

Action Needed To Strengthen Internal Controls

Section 8 management recognizes that opportunities exist to improve financial management practices, and initial steps have been taken. Staff have worked to verify billings to other housing agencies and to verify HAP amount accuracy. Payment requisitioning procedures were changed so that the process takes the Financial Services staff half the time of the old process. Opportunities for error which existed in the old process have been reduced. Staff continue to automate manual accounting and recordkeeping procedures, a long-term undertaking.

However, more attention needs to be paid to strengthening financial and internal controls so that, like any business, not only can the program earn more revenue, but it can also assure that revenue and expenses are accounted for appropriately, and that management reports are accurate. Section 8 should be capable of earning more, and losing less using effective financial management.

First, policies and procedures should be documented to aid staff and to ensure compliance with HUD requirements. Year-end financial statements should be reconciled to supporting City accounting records to ensure accurate reporting to HUD. HUD reports should be submitted on time. A cost allocation plan should be developed to allocate monies to specific areas of operation. Effective internal controls are needed in accounts payable and receivable and cash handling.

Financial Management Procedures Need To Be Developed

Section 8 should be managed in a manner that insures continued assistance for participants. A key factor in continuing assistance is establishment of sound accounting practices, including written procedures for financial management. Section 8 internal controls are weak. Revenue streams may be compromised and management reports may be inaccurate as a result. HUD requires that housing agencies establish adequate internal controls. (See Insert Next Page.)

Housing Agency Internal Controls

The PHA must establish adequate internal control systems to monitor compliance with program requirements, to identify areas of PHA operation that need improvement, and to plan for efficient workload distribution.

Source: HUD Handbook 7420.7 12-8, PHA Monitoring Of Program Requirements.

**Procedures Should Be
Developed To
Verify Reports**

Management should develop written procedures which require HUD reports to be verified to source documents and which require management to document the review. During fieldwork, we were unable to verify the accuracy of City Section 8 end-of-year reports to HUD, because source documents had not all been kept. The reports may be questionably accurate for several reasons. The County Housing Division has carried the City projects as open accounts on its system. Closing entries on the accounts were not developed until August 1994, and resulting information has not been given to the City. New information could require changes to the City's Section 8 financial records. In addition, we found that HAP payment requisitions did not match monthly units under lease contract reported to HUD in a judgment sample we checked.

Procedures should also require reconciliation of City financial records to HUD's review of year-end reports. When we reconciled the records, we found that differences existed in the amounts HUD reported it prepaid and the amounts City records showed it deposited. Differences may represent routine under-or overdraws, but may also be errors. Reconciliation could determine which was the case.

Cost Allocation Plan Needed

Section 8 shares staff and facilities with the Community Development Block Grant and other programs administered in the Community Assistance unit. Because of this, Section 8 must prorate costs between programs. HUD requires housing agencies to have a proration method. (See Insert Next Page.)

Proration of Expenses

The PHA Administrative Plan must include an explanation of the PHA proration policy, an estimate of staff time for each program function, and the equipment and supplies to be purchased with preliminary fees. If the PHA administers other housing programs such as public housing, it must maintain appropriate documentation to show the proration of costs among these programs.

Source: HUD Handbook 7420.7 8-4, Preparation of Financial Estimates.

Currently, proration is partly accomplished through the program's account structure although the process is not documented. Documentation does not exist in financial reports showing the allocation of costs for insurance or maintenance of the facilities. As one result of lack of a plan, office rent was not reported on fiscal year 1993/94 year-end reports. HUD Handbook 7420.6 requires that the housing agency "shall maintain for audit purposes appropriate schedules and worksheets showing how the allocation of costs was made."

Management needs to develop a cost allocation plan to accomplish proration to include in the City Administrative Plan. Further, a cost allocation plan is necessary in order for the housing agency to justify the collection of any preliminary administrative fees for setting up participant files. Preliminary administrative fees are one-time payments made by HUD to defray the program operator's start-up expenses. Unlike on-going administrative fees, supporting documentation has to be submitted to HUD to justify the payments.

While not required by HUD, the cost allocation plan should also capture the cost of City support to the program. Legal, human resource, automated system, and accounting support, among others, are provided by the City. Section 8 should show these costs when recording its budgeted and actual expenses so that financial reports to City management are accurate. In this way, the City Manager and the City Council can assess the true total cost to the City of administering Section 8.

Internal Reporting Needs To Be Improved

Not only should management ensure that reports to HUD are accurate, but also that reports to City management are accurate. One means of ensuring that management can adequately monitor Section 8 performance is the establishment of agreed-upon program

performance goals in the City Administrative Plan, and the development of adequate measurement systems to assess progress. We reviewed a number of progress reports to City management which contained factual errors. Several discussed money owed to the City Section 8 project in a confusing and inaccurate fashion. A number were misleading in regard to how successful Section 8 has been in fully utilizing its allocations. Progress reports to management have promised innovations that have not been delivered.

Payment And Receipt Controls Should Be Enhanced

In addition to strengthening internal controls to ensure management report accuracy, Section 8 needs to develop enhanced control over its payment process. Every month, Section 8 initiates hundreds of check requisitions for HAPs and for direct utility payments to participants. Currently, the requests are generated from a spreadsheet application. The payment amounts were not verified when the spreadsheet was created. No written procedures have been developed for the process. Financial Services does not independently verify payment accuracy, because this is the responsibility of Section 8 management.

The spreadsheet is a process change which occurred in September 1994 and which took the HAP requisitions off of a MAPPER database, the Citywide system maintained by the Office of Management Systems. Prior to the change of procedure, we performed a judgment sample of all payments for January and June 1994 for 21 landlords. We checked payment authorization, amount, and check endorsements and found no problems. We also reconciled all HAP payments made in June 1994 with authorizing contracts, and found no unauthorized payments. We did not perform similar verification of HAPs under the new procedures. However, additional internal control procedures are needed to make sure that payments remain authorized and accurate.

Written Procedures and Reconciliations Are Needed

First, written procedures should be developed for the accounts payable process within Section 8. HUD guidelines suggest the following segregation of duties for processing payments. (See Insert Next Page.)

How Duties Should Be Segregated

- The person setting up the landlord payment record should be different from the person negotiating with the owner and securing the HAP contract.
- The person setting up the landlord payment record should only do so after seeing an originally signed HAP contract.
- The person who calculates the HAP should differ from the person who authorizes payment changes.

Source: Section 8 Financial Management Handbook.

Staff should be trained in the process. All payment amounts entered on the spreadsheet should be reconciled to authorizing documentation initially, and then periodically to determine that payments are authorized and accurate. A process should be developed to construct control totals for each month's HAP processing. Totals would be tracked for on-going HAPs, dropped HAPs and added HAPs.

Management should periodically reconcile the HAP and utility payment requisitions with accounts payable reports, to determine that what was requested was actually paid. In this way, errors or omissions would be detected timely. For example, we found one instance where a landlord had not been paid the correct amount for several months, but staff did not detect the problem.

Changes Need To Be Better Controlled

HAPs can change as a result of reexamination of the tenant, adjustments to the contract rent or utility allowances, a change in rental unit ownership, or the tenant moving to a different unit. We found instances where changes were not identified in a timely manner, resulting in overpayments or underpayments to landlords. Documentation regarding changes was not consistently kept.

All requests for change in payment amounts should be compiled and kept as a change log, documenting why payments amounts were changed. Periodically, a sample of changed payments should be independently reviewed by management to ensure that changes were authorized and accurate, and that documentation was kept in accordance with procedures. Management should initial documents to indicate their review.

**Multiple Payments
Should Be Minimized**

We conducted a judgment sample of the program's accounts payable history to determine if duplicate payments occurred. We determined that no duplicate payments had occurred, but that multiple payments were a frequent occurrence. A multiple payment appears to be a duplicate payment because the assistance payments occur in the same pay period. What differentiates the two payments is invoice number coding. The invoice number carries a unique alphanumeric character at its end to signal that it is a separate invoice. Multiple payments are unavoidable. Staff may be unable to complete cases on time for check requisitions or landlords may be slow in providing tax information. Nonetheless, multiple payments make it difficult for staff to monitor accounting records for unauthorized or duplicative payments and should be minimized.

**System Needed For
Payables And Receivables**

City Section 8 administers assistance recipients for housing agencies in other locations in the Valley and throughout the U.S. The portable certificate and voucher program involves helping participants find housing and administering lease contracts. Because the City does the work, it is entitled under HUD guidelines to 80 percent of the home housing agency's administrative fee. The home housing agency reimburses the City for assistance expense.

Section 8 management needs to develop an adequate accounts payable and receivable system to service portable lease contracts and other applications. Because Section 8 does not have an adequate billing process, portable reimbursements were not being consistently and accurately billed and received.

Tenant damage claim accounts should also be formally set up for inclusion in a billing system. These payables occur when a landlord charges for rental unit repair. Section 8 pays the bill, but charges the tenant. Recordkeeping of these accounts is informal, although damage claims can be over \$1,000 and repayment long-term. Last, rent and utility overpayments should be covered by the billing system.

**Cash Handling
Procedures Need
Revision**

City Section 8 staff is not complying with City cash handling procedures regarding prompt deposits. In fiscal year 1993/94, Section 8 staff received \$206,000 in checks and money orders. A judgment sample conducted on a one-month period during this fiscal period shows cash on hand rising to \$26,000. Thirty-one checks were received in that sample month, but only one deposit was made. City cash handling policy states that cash receipts should be sent to the City cashier at least weekly if small amounts, less than \$50, do not warrant daily deposits. To do otherwise increases the possibility of loss through misappropriation or foregone interest earnings.

The individual responsible for cash deposit transmittal stated she was unable to perform deposits more frequently because of demands on her time due to the inadequate system. Each cash receipt had to be individually researched before preparing the deposit to determine what accounts needed to be credited, because the program does not provide a multi-part bill containing the needed information. A billing system would eliminate the need for duplicative manual research and make it possible to reconcile accounts payable and receipts.

Duties Need Segregation

Cash handling duties need to be segregated. We compared program records of cash receipt and deposit but, because of the lack of records, were unable to make sure assets were appropriately safeguarded. At the time of field work, one staff member processed cash receipts, stored cash received, prepared the deposit slip, researched account information and controlled records. This is an unacceptable situation for the individual and for the program. Because cash handling is a high-risk program facet, changes are needed.

Options Need To Be Considered

After improving the accounts payable and receivable system, Section 8 management has several alternatives to improve cash handling. First, Financial Services could put the Section 8 program on the Billings and Accounts Receivable System (BARS). Financial Services can bill program payables and track payments. Reports are then available to management about transactions. Using BARS, payments would go immediately to the cashier's office, who would deposit the funds daily into Section 8 accounts. Section 8 staff would not handle cash at all.

A second alternative could be the use of a "lock-box," an operation whereby cash handling is delegated to the City's banker, for a fee. Currently, City Courts and Customer Services use a lock-box. With a lock box, a post office box is set up at the Scottsdale post office under the Section 8 program name. Bills indicate payments should be sent to the box. A daily courier carries the box contents to a clerk at the bank, who opens, photocopies, time stamps and dates the deposits according to pre-set customer instructions. The clerk will send a copy of all backup documentation, and a copy of all checks received, if requested, to staff for recording into the proper accounts. Alternatively, the bank staff can also do data entry and transmittals to the City and update Section 8 financial records.

**Procedural Change Could
Save Program Money**

An additional financial management option which could save the Section 8 program money is Electronic Funds Transfer (EFT). Audit analysis indicates monthly postage expense for the program is \$500, or \$6,000 annually before the postage increase. EFT can reduce this expense significantly, and enhance internal control. The City currently utilizes EFT for employee payroll checks, and the collection of utility payments for Customer Service. To initiate the EFT application, the City and landlord would enter into a written agreement for the deposit of funds. The landlord would then supply a canceled check from a banking institution to direct funds into the proper account. To complete the process, the Section 8 staff would send the payables information to Financial Services so that they can place the information in the Automated Clearing House program for electronic transfer.

**Records Do Not
Facilitate Audit**

Housing agencies such as the City's are required by the CFR to keep separate accounts and records of their activities in performing their management functions. The contract between the City and HUD requires that "The PHA shall maintain complete and accurate books of account and records for the Program. The books and records shall be in accordance with HUD requirements and shall permit a speedy and effective audit." This contract requirement is not being adequately met. Local policies and procedures were not documented. Certain kinds of records could not be located. The status of portable certificate and voucher accounts receivable and payable could not be determined. We were unable to easily verify year-end financial reports because supporting documentation was

not kept. The program did not maintain accounts to track how much voucher money had been allocated and how much available money remained. Finally, equipment purchased with federal funds carried a City identification tag. Federally bought items must be inventoried separately.

Negotiation Continues About Amount County Owes The City, But Repayment Should Ensur

Maricopa County's Housing Agency administered the City's Section 8 program since 1976. The City executed the funding contracts with HUD, then delegated program operation to the Authority under the provisions of a 1953 resolution. Basically, the Authority was a sub-contracted housing agency for the City. We were unable to find any written agreements regarding program operation.

Negotiations are needed for the County Housing Assistance Division to repay funds to the City Section 8 projects. The repayment will settle accounts between the two housing authorities and finalize the program's 1992 transition to the City. In August 1994, a certified public accounting firm engaged by HUD to assist the County Housing Division analyzed the Division's financial records and determined that no money was owed to the City because of operating reserve deficits. However, we documented that HUD withheld \$117,000 from City fiscal year 1992/93 project funds because of overdraws by the County during the previous year. The Division Director has agreed to initiate repayment once an amount owed has been determined.

City Financial Records Should Reverse Operating Deficit Entry

City Section 8 has recorded a \$136,389 operating reserve deficit against its projects. These operating reserve deficits are "paper losses." These losses reflect poor Authority accounting practices and should not have been picked up when the City took over the projects. The practical result of continuing to record the Authority's operating deficit on City records is that any surpluses earned by the City program are recorded against the deficit. This makes financial reports misleading. Section 8 management should consult with HUD staff about removing the deficit from program financial records.

RECOMMENDATIONS

The General Manager, Planning and Development, should:

4. Develop and implement written procedures which require verifying Section 8 financial reports, HUD submittals, and other appropriate reports to source documents and require management to document report review. Source documents should be retained to provide an audit trail.
5. Develop a Section 8 cost allocation plan.
6. Develop and document effective internal control procedures for establishing, verifying, periodically reconciling, and controlling changes to housing assistance payment accounts.
7. Develop and document an effective Section 8 accounts payable and receivable system for portable certificates and vouchers, and tenant transactions.
8. Develop and document efficient and effective internal control procedures for Section 8 cash handling, as required by City business practice.
9. Determine if electronic funds transfer technology could be an appropriate program efficiency enhancement.
10. Negotiate with the County Housing Division and the Phoenix area HUD office and recover funds withheld during fiscal year 1992/93.
11. Reverse the \$136,000 operating deficit off of Section 8 financial records, if HUD agrees.

ABBREVIATED RESPONSES

The General Manager, Planning and Development, responded as follows:

4. We concur... responsive action is planned for October 31, 1995.
5. We concur... responsive action is planned for December 31, 1995.
6. We concur... work is underway, and recommended target implementation date is August 31, 1995.
7. We concur... responsive action is planned for October 31, 1995.
8. We concur... work is completed.
9. We concur... responsive action is planned for June 30, 1996.
- 10 and 11. We concur... responsive action is planned for December 31, 1995. Community Assistance will seek to work in partnership with the City Auditor's and other appropriate offices to seek remedy to the outstanding issues identified in Recommendations 10 and 11 concerning Maricopa County and HUD.

APPENDIX

City Section 8 Housing Assistance Program Operations
City Auditor Report No. 9403

A

Objectives, Scope and Method

The objectives of the Section 8 performance audit were to assess whether the City Section 8 program was organized in the best way to achieve objectives effectively and efficiently and to determine the adequacy of the program's internal control structure. We also evaluated the financial status of the program to determine whether any money was owed to the City Section 8 from Maricopa County.

The scope of the audit was from the inception of the Section 8 program as a City unit in the Summer of 1992 through close of fieldwork in December 1994. Because of this, we did not audit program operations before the Summer of 1992, when the Maricopa County Housing Agency operated Section 8 for the City. This audit was coordinated with the on-going accounts payable audit (no. 9203) to eliminate duplication of effort.

In order to understand the Section 8 program and its operating environment, we interviewed Section 8 staff and reviewed policy and procedures manuals. We reviewed reports covering low-cost public housing assistance from other audit organizations, and interviewed HUD Inspector General and Public Housing staff. We also interviewed City Financial Services staff who support the Section 8 program. We determined what statutes, ordinances, and regulations guide Section 8 operations.

To evaluate the benefits and drawbacks of having the Section 8 program organized as an autonomous housing agency versus a City unit, we interviewed the Public Housing Director of the local area HUD office. We also inquired of The Innovation Groups via the Prodigy information network, accessing nearly 90 jurisdictions across the US. We determined an estimated staff and other costs for City support to the Section 8 program.

In order to determine whether or not the program was efficiently and effectively managing rental housing contracts, we constructed a database of all active tenant files housed in the Section 8 office. We scanned each tenant file for documentation conformance to HUD requirements and noted exceptions. We developed a database of all Section 8 landlords. We obtained and reviewed accounts payable reports covering all payments made since program inception

and periodic reports on payments made to the Internal Revenue Service. We looked for unusual addresses or names, and also for matches of addresses or zip codes with staff information.

We initially planned to perform a random statistical sample of landlords for authorized HAPs, payment accuracy, conformance to HUD requirements, and acceptable on-site visual inspection. A consulting statistician, Mark Reiser, Ph.D., advised the auditors about sampling methodology.

Instead of a random statistical sample, we performed a judgment sample of all payments for January and June 1994 for 21 landlords. For the sample, we determined the contract number, obtained the source documents authorizing payment, and inspected the executed check. We matched check payee information to Internal Revenue Service required reports. For June 1994, we matched all active HAP contracts to all payments made that month. Exceptions were researched. Using unverified program reports of certificates and vouchers in use, we developed a history of occupancy rates in the Section 8 program, with the results shown below:

Section 8 Program Certificates and Vouchers Under Lease Contracts

Date	#Certificates	#Portable Certificates	#Vouchers	#Portable Vouchers	Total COS Allotment	Total Clients
9/92	343	22	53	10	396	428
11/92	347	24	48	10	395	429
12/92	344	18	48	8	392	418
1/93	342	16	48	7	390	413
2/93	343	18	47	9	390	417
3/93	342	17	47	5	389	411
9/93	326	22	51	13	377	412
[no records available]						
3/94	263	31	31	13	294	338
6/94 1	299	30	55	15	354	399
8/94	305	28	62	13	367	398
9/94	280	22	60	12	340	374
10/94	254	24	49	11	303	338

(note 1: data taken from the auditors database of active tenant case files)

Source: Section 8 certificate and voucher lists, and audit analysis.

Due to lack of documentation, we were unable to determine turnaround time on available housing slots or number of months clients wait for assistance.

We evaluated the Section 8 office cash transmittal procedures by interviewing staff and reviewing documents. We developed a database of cash received in the office using City cash receipt forms. For fiscal year 1993/94, cash receipts were compared to cash transmittal/deposit forms, and exceptions were researched.

To determine whether or not Maricopa County owed the City Section 8 program money, we reviewed end-of-year reports for 1992. Source documents were not available for these. We also interviewed Financial Services staff to determine the course of events leading to including the operating reserve deficit on Section 8 financial reports. Finally, we reviewed authoritative HUD guidance concerning operating reserves and deficits in the Section 8 program, and interviewed County Housing Assistance Division staff.

APPENDIX B

City Section 8 Housing Assistance Program Operations
City Auditor Report No. 9403

Management Responses

TO: Cheryl Barcala, City Auditor

FROM: Greg Larson, General Manager
Planning and Development

27

RE: (see below)

DATE: June 2, 1995

RESPONSE TO DRAFT AUDIT REPORT - CITY SECTION 8 HOUSING ASSISTANCE PROGRAM OPERATIONS (AUDIT REPORT NO. 9403)

Thank you very much for the extended opportunity to review and discuss with you and your staff the findings, recommendations, and draft report referenced above. The report is thoroughly researched, clearly written, and will be helpful as we pursue further operational and organizational changes within the broader Community Assistance Program.

We concur with all of the recommendations and most of the findings detailed in your full report. The implementation status of each recommendation is categorized at the end of this response as either "planned" or "underway" with a target implementation date to facilitate completion of the matrix at the beginning of your final report. Subsequent modifications to the target dates may be necessary as additional information becomes available or due to further organizational and staffing changes.

With the appointment of Joe Kisler as Interim Community Assistance Manager last March, we have already and independently begun many of the steps necessary to develop and implement additional management tools, policies, and procedures. The attached job description provides additional details of these efforts. The Community Assistance Manager and program staff have also recently initiated a process analysis and improvement process to flow chart existing systems and identify needed changes and possible efficiency improvements.

Several improvements have already been implemented since completion of the audit field work last December. For example, all quarterly requisitions for the current fiscal year have now been submitted to HUD and approximately \$500,000 was received by the City during May, 1995. The annual requisitions for 1995-96 have already been submitted to HUD, ahead of the required due date.

One of the highest priority work programs is to replace the existing tracking and reporting software program which the entire Section 8 program has attempted to rely on, to little avail, for more than a year. We believe that deficiencies in this system are responsible, at least in part, for many of the audit findings and recommendations. We have already begun efforts to identify alternative computerized systems, if available, and to seek recourse for the existing system. This is a key work program for meeting many of the target recommendation implementation dates.

Cheryl Barcala, City Auditor
RESPONSE TO DRAFT AUDIT

Page 2
June 2, 1995

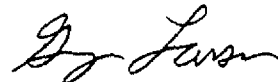
Finally, numerous changes may occur during the next several months and/or years with regard to federal regulations and funding for programs managed by Community Assistance (CDBG, Section 8). Specifically, there are preliminary indications that both regulatory controls and funding may be decreased. These changes, should they occur, will result in further modifications to our management and implementation of these programs.

Recommendation Target Implementation Dates

	<u>UNDERWAY</u>	<u>PLANNED</u>
1.	12/31/95	
2.	12/31/95	
3.	8/31/95	
4.		10/31/95
5.		12/31/95
6.	8/31/95	
7.		10/31/95
8.	Completed	
9.		6/30/96
10.*		12/31/95
11.*		12/31/95

* Community Assistance will seek to work in partnership with the City Auditor's and other appropriate offices to seek remedy to the outstanding issues identified in Recommendations 10 and 11 concerning Maricopa County and HUD.

Please feel free to contact Joe Kisler or me directly if any additional information or clarifications are needed.



Greg Larson, General Manager
Planning & Development

Attachment

cc: Dick Bowers
Joe Kisler

RESPONSIBILITIES & ASSIGNMENTS

Interim Housing & CDBG Program Manager

Ensure and manage the ongoing service delivery of the Housing and CDBG programs

Assist and supervise CDBG and Housing staff in the performance of their day-to-day responsibilities

Maintain communications with and confidence of appropriate federal agencies regarding program operations and service delivery

Provide full and timely access to any and all information, documents, staff, consultants and other resources as required for a fair and impartial audit and other investigations as may occur

Initiate preparation of fundamental management tools for the 1995-96 Fiscal Year, including detailed program budgets, performance targets, and reporting mechanisms. This effort may require preparation and/or review of like documents for the current fiscal year, extensive coordination with the City Auditor, and transitioning the project to the permanent manager at an appropriate point.

Report to the General Manager of Planning and Development or, in his absence, the City Manager, on emerging policy, fiscal, organizational, and other issues as appropriate